CARANA CORPORATION
Providing Global Development Solutions

The Uganda COMPETE Project

Competitive Private Enterprise And Trade Expansion

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Status Report

February 5, 2001

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THE COMPETE PROJECT

Competitive Private Enterprise And Trade Expansion
(Funded by the United States Agency for International Development
and undertaken by CARANA Corporation)

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Summary of Project:

COMPETE is a key component of the Government of Uganda's *Medium Term Competitiveness Strategy fro the Private Sector,* designed to focus private and public sector attention and resources on strengthening the country's export competitiveness.
The project will concentrate on four sectors whose contribution to Uganda's foreign exchange earnings and broader economic development can be substantial. These national export initiatives are designed as pilot projects that may form the basis of similar long-term initiatives.

It is intended that the private sector drive these efforts in search of new markets and enhanced profits. Therefore, the technical assistance given in this project focuses on helping the private sector actively expand into these markets. However, the government's role as an enabler will be critical to this process. The government, in close cooperation with the private sector, must address any impediments of a regulatory and infrastructure nature.

The COMPETE project constitutes one of the first active initiatives of the Medium-Term Competitiveness Strategy for the Private Sector, approved by the Government of Uganda in mid-2000. COMPETE is intended to address the root causes of the declining export performance of several critical sectors. As stated in the Medium-Term Strategy, the "Process of Building a National Competitiveness Strategy" will involve three phases:

- Identifying the sources of competitive advantage in Uganda
- Analysing those advantages and designing a strategy for building on these strengths
- Developing pilot projects for implementation

Phase 1 of the project, expected to be completed in the first quarter of 2001, focuses on the process of selecting priority sectors, organizing dedicated 'working groups' within those sectors to strengthen competitiveness, and developing step-by-step strategies that will be implemented over the remainder of the project. Phase 2, the implementation phase, will be guided by a series of rolling work plans, bringing in ever-broader participation from the sector to upgrade Uganda's production and making to international standards.

Phase 1: Sector Selection and Formulation of Competitiveness Strategies

Beginning in December, 2000, the COMPETE team held a series of meetings with the Special Task Force on Export Competitiveness set up by Cabinet and chaired by Ministry of Finance. In a series of three workshops, supported by research of past studies and the most current data, the Task Force and the COMPETE team reached agreement on the criteria for prioritising the opportunity areas to be worked with. Three categories of criteria were used in ranking the sectors:

- The impacts that growth of exports could have on the country's economic development
- The current capacity of Ugandan producers to compete in international markets
- The ease and speed of implementing national export initiatives in these sectors

Within each category, several measures were explored. These included the following:

- Economic impacts of improved export competitiveness:
    - Potential size of foreign exchange earnings that can be expected from the sector
    - Percentage of Uganda's population whose incomes will be increased by improved exports from these sectors.

- Competitiveness of the sector
    - Size/growth of international markets for these products
    - Ability of Uganda's production to meet international standards
    - Price competitiveness of Uganda's products in world markets
    - Producer/ management skill base available to strengthen the sector

- Speed and ease of implementation of competitiveness initiatives in the sector
    - Existence of strong institutional support within the sector to undertake initiatives
    - Ease of overcoming regulatory and infrastructure barriers in the sector

Following agreement on the criteria, the Task Force, composed of private and public sector representatives began with a 'long-list' of possible export sectors. Many sectors were eliminated from the outset, as they did not meet minimum criteria. Others were analysed closely, notably the following: coffee, cotton, fish, tea, tourism, horticulture, floriculture, maize leather, power, information and communications technology, education, beef, and textiles. The COMPETE team proceeded to study the most recent data and analyses (Ugandan government as well a international consulting reports) examining these sectors and their export performance. Data were gleaned from these studies as well as from official statistics that shed light on the ability of each sector to satisfy the criteria.

The group then proceeded to rank the remaining sectors on a scale of 1 to 5. In addition to the oral discussion, members were sent written submissions to be studied more closely. In the final meeting on January, 22,2001, the CARANA team presented these preliminary findings to the Task Force for final review. Based on these conclusions, it was agreed to designate eight sectors as candidates for national export initiatives. These sectors and their relative weightings are shown in the attached tables.

The sectors, by ranking, were as follows:

- Coffee
- Fisheries
- Cotton
- Information and Communication Technology
- Floriculture
- Tea
- Horticulture
- Tourism

From the outset, the COMPETE team, funded under a USAID contract, indicated that its resources would permit it to focus on four of these sectors. USAID representatives furthermore noted that under its current IDEA activity (that promotes non-traditional agriculture exports), a successful effort is already underway to promote exports of floriculture products to foreign markets. Hence, floriculture would not be a focus of the COMPETE project.

The COMPETE team therefore proposed that its work targets coffee, cotton, fisheries and the ICT sectors. With respect to the ICT sector, the COMPETE team proposed that work in this sector be of a cross-cutting nature, focused on strengthening the competitiveness of the coffee, cotton and fisheries sectors, as a point of departure for developing the sector more broadly.

The Coffee Sector

- Ugandan robustas (currently 2.7 million bags worth about $ 100m), when optimally grown and prepared to achieve a 'soft' (neutral) taste, occupy a special role in coffee blends and soluble coffee where they substitute for lower quality arabicas.
- The International Coffee Agreement sought to balance world consumption and production by giving producing countries quotas. When it ended, certain producing countries most notably Viet Nam, increased production to a point where supply now consistently exceeds demand. Coffee prices, especially for robustas, have fallen to modern lows.
- The Ugandan coffee Marketing Board was a coffee monopsony and sole exporter that sought to maintain the reputation of Ugandan robustas through strict quality control. When it ended in 1991, numerous firms entered the Ugandan coffee trade as exporters and as intermediaries between farmers and exporters. The resulting 'cut-throat' competition induced traders to lower coffee quality in an attempt to maintain margins in a classical 'race to the bottom'. Uganda's international reputation for quality robustas suffered accordingly.
- Consequently there is a double threat to prices: low market prices and evaporating premium. The resultant farm-gate prices for farmers, especially for small holders, are likely to approach the cost of production. Without the cash income from coffee, smallholders cannot obtain the capital they need to modernise their farms and invest in alternative careers for their children.
- Within the Ugandan coffee industry there is a consensus among knowledgeable players that the first step is to restore Uganda's quality image, then increase production to an optimal point.

- Therefore the Ugandan coffee industry has the potential and the will to re-establish the unique quality of its robustas, restore or consolidate premier over lower quality robustas and possibly insulate itself somewhat from the world market prices and so contribute to the alleviation of poverty.

The Fisheries Sector

The Special Task Force and the COMPETE team judged fisheries to be a priority export sector according to the criteria selected for ranking possible national export initiatives. Currently, virtually all fish exports originate from Lake Victoria. While there are natural limitations to the fish stock, with proper preservation and management of these stocks in the lake, the fish resources can continue to provide a source of valuable foreign exchange and economic development over the longer-term.

In terms of overall impact, the fisheries sector ranks high among Uganda's economic sectors. Currently fish exports total approximately $ 60 million, making it the second largest foreign exchange earner for the county, or 7% of total exports, according to the Bank of Uganda. The Uganda fish Exports Association estimates that the likely maximum yield for Uganda from Lake Victoria will total between US$100 to $ 110 million, given the current state of stock management. Moreover, the potential for fishing farming and aquaculture, both in Lake Victoria and in other lakes and waterways in Uganda is only beginning to be assessed. With proper technologies and environmental controls, it is expected that fish farming can become another important source of exports over the longer-term.

In terms of the larger impact on incomes, the Ugandan Fish Exporters Association estimates that well over 200,000 Ugandans are dependent on the fisheries industry.
Currently exportable fish (namely Nile perch) are limited to the Lake Victoria region. In 1999 over 111,000 tons were harvested from lake Victoria. Other lakes, in particular Lake Kyoga, produced almost 80,000 tons of fish, largely for the domestic market. However, with development of inland fisheries over time through fish farming and aquaculture, fish resources for export may well broaden.

Judged on the basis of the natural competitiveness of Ugandan fisheries in international markets, the fish sector ranks very high. International demand for high quality white fish like Nile perch is high, and growing. Even during the period of the EU ban, Ugandan processors were able to find alternative markets in North America and Asia. The recent quotas imposed on North Atlantic fishing for cod will decrease the current supply of white fish in these markets and increase demand and price for Nile perch.

The quality of Nile perch is uncontested and with the improvement of sanitary conditions and export certification, Ugandan fish exports are likely to meet all market criteria. Air transport facilities out of Entebbe have made shipment to Europe and beyond timely and competitive with other producers.

The Task Force and the COMPETE team also judged that the fisheries sector has developed very strong institutional support, both from the private and public sector sides. Processors have come together in the Ugandan Fish Exporters Association, which has been extremely instrumental in successfully addressing problems facing the sector, such as the EU ban. Assistance from the Ugandan Investment Authority has also been critical in attracting private laboratory and testing facilities into the country to certify sanitation and quality of fish for export. Government bodies such as the Department of Fisheries Resources, the Food and Science Research Institute in the NARO, and the National Environmental Management Association are also partners to the Sector, thereby facilitating efforts to improve export competitiveness.

The Cotton Sector

The COMPETE team and the Special Task Force concluded that the cotton sector is able to make a critical contribution to Uganda's longer-term economic development and its export growth. The expansion of this sector, which dominated the economy in the 1960s, also has significant implications for further value-added activities in the areas of textiles and garments, each of which offer large opportunities for the expansion of new business and job creation throughout the regions of the country. The possible evolution of Uganda into a significant textile and garments producer needs to be integrated into the country's longer-term strategy.

Uganda's climate and agronomic conditions offer an outstanding environment for the resurgence of the cotton growing and ginning industry, a resurgence, which has already begun as a result of the Cotton Sub-Sector Development Project that began in 1994 with favourable growing conditions, Uganda can produce large quantities of high quality
Cotton. It is estimated that with the right technological inputs, Uganda could well exceed production rates of one million bales a year.

The cotton sector ranked high against all the established criteria for the selection of target sectors. In terms of broad economic impact, the COMPETE team and the Special Task force concluded that the potential would be significant for foreign exchange earnings as well as direct impacts on incomes for a large percentage of the population. According to the latest available statistics from the Bank of Uganda, cotton is currently the fourth largest export commodity after coffee, fish and tea. It is also a major supplier of raw materials for the edible oil, soap and livestock feed industry, thereby having multiple downstream impacts.

According to the Cotton Development Organisation, the number of cotton growers totaled approximately 430,000 and was estimated to increase to 500,000 by the year 2000. This compares to over 700,000 in the early 1970s, before the collapse of the Ugandan economy over the following 15 years. Cotton production increased to over 120,000 bales in 2000, compared to only 10.000 bales in 1991 and 60,000 in 1995/6. It is estimated that approximately 700,000 acres will be under cultivation in 2000/01, compared to only 40,000 in 1987/88. Cotton growing is distributed across a large portion of Uganda, principally in the eastern, northern and western regions and hence has an important impact on mitigating rural poverty.

When weighted against the competitiveness measures adopted by the Special Task Force, Ugandan cotton ranked very high in terms of product quality, competitive cost of production, and the future capacity to compete. Uganda's medium staple cotton is considered to be high quality for which international markets are continuing to grow. Outstanding growing conditions make cotton production relatively cost effective, even though land transport costs through Kenya reduce this advantage significantly. Current under-utilized ginning facilities will permit Uganda to move into yarn production, for example, more easily and efficiently. With this materials base and infrastructure in place, it is more likely that textiles industry can be revived and expanded.

In terms of the ease and speed of implementing an export initiative in the cotton sector, the recent creation of the Cotton Development Organisation (CDO in 1994) and the Ugandan Ginners and Cotton Exporters Association (UGCEA in 1997) has brought strong institutional support to the sector that was absent in previous years. The Cotton Sub- Sector Development Project (CSDP) stimulated the development of a new strategy for the sector and led to the creation of these support bodies. The appointment of the Audit Control and Expertise (ACE) group to oversee quality control and monitoring at the ginnery level is a key support factor in the process of ensuring the quality of Uganda’s exports. The activities of the National Agricultural Research Organisation (NARO) in the area of cotton research, the provision of extension services under Ministry of Agriculture Animal Industries and Fisheries (MAAIF), and the credit program directed by the Development Finance Department of the Bank of Uganda all constitute solid institutional support for the cotton sector. Hence, the Task Force concluded that institutional support for the industry is relatively strong, thus facilitating a successful export initiative with the sector.

The barriers facing the industry are formidable, requiring close government cooperation with the sector. Weak extension services that can educate farmers on growing techniques, use of fertilizers and pesticides, etc., are issues that need to be addressed. Lack of essential inputs such as pesticides and sprays are also infrastructure barriers that cannot be ignored. However, in the view of the Task Force and the COMPETE team, these are barriers that can be surmounted with strong cooperation between government and the private sector.

Sector Strategy Development during Phase 1

During the months of February and March, the COMPETE team will develop the strategic framework for improving export competitiveness in each of these sectors.
Experts in international markets for Coffee, Fisheries and Cotton will be present in Uganda to forge partnerships in the sector. Small, informal working groups will be developed in each sector, composed principally of private sector representatives, to analyse the roots of Uganda’s current weak competitiveness. The COMPETE Project is not intended to produce consulting ‘reports’ or’ workshops’ but rather plans of action within the sector to improve product quality and access to markets.

The COMPETE team is actively encouraging Uganda’s Private sector to take full ownership of the Export Competitiveness Program by identifying its own ‘champion of improved export competitiveness in each sector, who can work closely with COMPETE’s Product and market experts. Similarly, the team is seeking to involve those government officials who likewise can contribute significantly to making the Program a success.
Together the teams will develop a plan for proceeding over the coming year, and beyond. This framework will define objectives to be sought in the sector (in terms of product quality and differentiation, new markets, etc.), steps to be taken for

improvement, results to be achieved, measurement of those results, and constraints (Such as regulatory and infrastructure barriers) to be identified and addressed by government.

Because of the limited time and resources available to the COMPETE team, choices will have to be made on where to concentrate these limited resources. As COMPETE is a 'pilot' project designed to launch a broader effort in each sector, the team will seek the most feasible and practical approach to achieve success.

In January 2001, the COMPETE team began constituting a project team in the Coffee sector to define the Strategy for the Sector. A fisheries team will arrive in early February to begin work in this area. By early March, the Cotton and ICT teams will be launched.

Phase 2 - Implementation of Sector Competitiveness Initiatives

Once sector strategies have been defined and 'working groups' have been formed in each sector, the sector teams will define regular three-month rolling work plans of activities.
Specific roles for participating firms and associations will be defined for each quarter. Schedules for activities will be outlined and targets set.

COMPETE Activity – Coffee

- The Competitiveness model consists of a process that begins with the Market: the consumer or a proxy, in the case of Uganda, the *Coffee roaster* who incorporates Ugandan robustas into arabica: robusta blends or transforms it into soluble Coffee
- The first step in the process requires the private sector, assisted where appropriate by the public sector to agree upon a *reading of the market* that is transformed into an *ideal national Coffee Strategy.*

- **Success in implementing this strategy depends upon**
    - Mobilizing a number of linked organizations in the Uganda coffee system basically farmers + processors + exporters – who, by working constructively together – with the support of the key services, such as *Information and finance* ***– meet or exceed the needs of the roasters;*** and
    - Identifying and deploying processes and practises used by such successful linkages.
- A comparison of actual with ideal performance measures the gap to be bridged. When this gap is quantified, *intermediate goals* can be set.
- The second step is therefore to *identify all existing activities* that are *contributing to the ideal strategy,* including uncoordinated initiatives.

COMPETE can then contribute to the ideal coffee strategy by:

- *Reinforcing* successful initiatives, particularly those that can serve as models (nuclear estates, exporter premium programmes);

- *Identifying the factors* that account for *success* and preparing an account of each model suitable for ready communication to would – be adopters;
- *Promulgating successful models;*
- *Building and strengthening* linkages between piecemeal efforts (coffee planting, promoting farmer – owned business) and other parts of the coffee system so that the joint effort helps the Ugandan coffee industry *meet the intermediate goals;*
- *Undertaking* actions within the scope of the COMPETE activity that *complement or enhance* the work of successful linkages (surveys, management development of key organizations);
- *Promoting and helping* the coffee trade solicit help from international donors and others to further their efforts;
- *Introducing new players* – international or indigenous as appropriate to accelerate progress to achievement of the ideal strategy
- *Measuring progress* towards closing the gap between the ideal and the actual strategy;
- *Communicating achievements* by the Ugandan coffee industry in closing the gap to keys parts of the international coffee trade.

Cross – cutting issues to be addressed in the COMPETE Project

Several cross – cutting themes will be integrated into the work of COMPETE. The contribution of information and communications technology is critical to both export competitiveness and to Uganda's broader economic, social, and political development.
The COMPETE team, and the Special Task Force, agreed to designate the ICT sector as one of the four priority sectors, principally because of its role in supporting the development of the coffee, fisheries, and cotton sectors.

Developing rural connectivity with producers, communicating products standards from international buyers to producers and processors, identifying opportunities for product differentiation, maintaining product quality around the country, etc., will all be critical factors in the success of these sectors. Furthermore, focusing the development of the ICT Sector on several real opportunities can serve as a trial case for launching broader development on the ICT sector.

Protection of the environment will be another critical cross -cutting theme to be addressed. Environmental protection and health standards are at the centre of the competitiveness issue for Ugandan fisheries and fish exports. The recent EU ban on Ugandan fish exports pointed to the need to take forceful action to ensure that health standards can be met. Ugandan processors are fully aware that strong action must be taken by the fishing sector, beginning with the local fishermen themselves, as well as by Government in establishing and enforcing environmental standards to the nation's lakes and waterways. Regional cooperation is also required in the Lake Victoria region to preserve the environment of the lake and fish stocks for all three countries.

Similarly, the development of cotton sector poses very critical environmental issues. The use of fertilizers and pesticides must be addressed from the outset in the development of high quality, reliable sources of supply for local ginners. Increasing production is essential to the success of the sector that this must be done with careful application of fertilizers and pesticides.

Table 1

ECONOMIC IMPACT - WEIGHTINGS

	Foreign Exchange					**% Population Reached**					
PRODUCT AREA	**5**	**4**	**3**	**2**	**1**	**5**	**4**	**3**	**2**	**1**	**SUB TOTAL**
COFFEE	5					5					**10**
COTTON	5					5					**10**
FISH	5	4						3			**8**
TEA							4				**8**
IT/ EDUCATION	5					5					**10**
TOURISM		4					4				**8**
HORTICULTURE			3					3			**6**
FLORICULTURE			3					3			**6**
MAIZE					1	5					**6**
LEATHER				2			4				**6**
POWER			3							1	**4**
BEEF				2		5					**7**
TEXTILES			3					3			**6**

Table 2

COMPETITIVENESS- WEIGHTINGS

	Market Size					Product Quality					Competitive Cost					Capacity to Compete					
PRODUCT AREA	**5**	**4**	**3**	**2**	**1**	**5**	**4**	**3**	**2**	**1**	**5**	**4**	**3**	**2**	**1**	**5**	**4**	**3**	**2**	**1**	**SUB TOTAL**
COFFEE	5					5					5						4				19
COTTON	5						4								1		4				14
FISH	5					5					5					5					20
TEA	5					5							3					3			16
IT/EDUCATION			3				4					4						3			14
TOURISM	5								2					2					2		11
HORTICULTURE	5						4				5							3			17
FLORICULTURE	5						4				5						4				18
MAIZE					1			3							1					1	6
LEATHER	5							3				4							2		14
POWER		4				5									1			3			13
BEEF			3					3							1					1	8
TEXTILES	5								2						1					1	9

Table 3

Table 3

EASE OF IMPLEMENTATION- WEIGHTINGS

	Institutional Support					Overcoming Barriers							
PRODUCT AREA	**5**	**4**	**3**	**2**	**1**	**5**	**4**	**3**	**2**	**1**	**SUBTOTAL**	**GRAND TOTAL**	**RANKINGS**
COFFEE	5					5					10	39	1
COTTON	5						4				9	33	3
FISH	5							3			8	36	2
TEA		4						3			7	31	5*
IT/EDUCATION		4					4				8	32	4
TOURISM		4						3			7	26	7
HORTICULTURE	5								2		7	30	6
FLORICULTURE	5								2		7	31	5*
MAIZE					1					1	2	14	11
LEATHER			3							1	4	24	8
POWER					1					1	2	19	9
BEEF					1					1	2	17	10*
TEXTILES					1					1	2	17	10*